COMMUNITY & SOCIAL AFFAIRS COMMITTEE

24 JANUARY 2012

JOINT REPORT OF HEAD OF CENTRAL SERVICES & HEAD OF COMMUNITIES & NEIGHBOURHOODS

COUNCIL HOUSING FINANCE REVIEW – HRA REFORM, HRA BUSINESS PLAN & ASSET MANAGEMENT STRATEGY

1 PURPOSE OF REPORT

1.1 To inform Members of the Government's final draft determination on the Council Housing review, and the arising issues.

2.0 RECOMMENDATIONS

2.1 ***It is recommended that***:

(i) ***The Committee notes the progress made in regard to the Council Housing Finance Review, approves the HRA Business Plan and notes the Asset Management Modelling;***

(ii) ***The Committee approve delegated authority to the Head of Central Services and the Head of Communities and Neighbourhoods jointly to ensure the new and on-going borrowing for the debt settlement is arranged to best reflect the needs of the service and in consideration of the Council's Treasury Management Strategy.***

3. KEY ISSUES

3.1 On 5 October 2010 the Government announced its intention to replace the Housing Revenue Account subsidy system with a devolved system of Council Housing finance called self-financing. Prior to this decision, there had been two public consultations on the proposed reforms. The first in July 2009, established the principles of self-financing; the second in March 2010, consulted on a detailed methodology for applying those principles. In February 2011 the document 'Implementing self-financing for council housing' was issued by the government which outlined the rationale, methodology and financial parameters for their reforms, which will be supported under the Localism Bill and so backed by legislation. The implications of this document were reported to a meeting of this committee on 22 June 2011.

On 21 November 2011 the final draft subsidy determination was published which was under-pinned by the self-financing model. The model takes year one data from the baseline model and applies it to the self-financing methodology to calculate the value of the business over 30 years.

Debt Allocation

The Government's Final Draft Determination details how the debt is to be distributed and using assumed annual inflation percentages the debt allocation for MBC at a 6.5% discount rate will be £33,742,000. This will be reduced by the HRA Subsidy Capital Financing Requirement (SCFR) of £5,931,000 to £27,811,000.

The SCFR is the amount used as the assumed HRA debt levels as at 31 March

2012. The actual amount of HRA debt (the Capital Financing Requirement (CFR)) is forecast to be £4,282,103 at 31 March 2012. We will retain the headroom we currently have and will not be penalised for using our own resources in the past to reduce our debt.

Borrowing for the Settlement:

The treasury announced that new borrowing taken for the purpose of self-financing on 28 March 2012 from PWLB will have a preferential rate to their usual rate.

The recommended borrowing option is in 2 stages:

1 Use a capital receipt, if available, to pay-off all existing general fund debt by transferring the general fund capital financing requirement (excluding that relating to the Registrars) to the HRA – after repaying the current related premiums of £160,458. Allowing the HRA to take all the existing Council borrowing at the existing terms. Although the debt could be re-scheduled to a slightly preferential rate the few amounts which could be rescheduled have a nominal impact and would attract a premium.

2 Take on new additional debt for the remaining amount at 28 March 2012 in regard to the Council's treasury management strategy under the joint delegated authority of the Head of Central Services and the Head of Communities & Neighbourhoods.

The Council's current policy of internal borrowing would be continued to reduce external borrowing where this has the most beneficial effect. The mix of terms of HRA borrowing should best reflect the needs of the service as well as delivering the best value for money for the Council. The settlement borrowing is further considered in the HRA Treasury Management strategy.

3.2 **What happens now**

A business plan has been produced to inform the HRA work programme and budget going forward for the next 30 years. This is attached at Appendix A. An Asset Management Strategy is currently being reviewed and the details of the recent asset analysis work is being analysed to inform us of what needs to happen to our stock over the long term and what our options are. The asset modelling done by Savill's is attached at Appendix B1 & B2.

The budget working papers for 2012/13 have been produced and are attached to another report to this committee. The rent increase has been and will continue to be set in accordance with Social rent policy as prescribed by the self-financing settlement.

In addition a treasury management strategy has been formulated in specific regard to the HRA to ensure that the Council is able to continue to provide good quality housing to all its tenants into the future by careful and prudent borrowing. This is attached to another report to be presented to Full Council on 1 February 2012.

Following these reports the timetable of key dates to final implementation is as follows:

Dec 2011	CLG & PWLB issue letter to local authorities setting out arrangements for loans and debt redemption
Jan 2012	Final self-financing determinations published
	Local Authorities making payment to government identify source of funding and apply for loans

Mar 2012	PWLB issue a schedule of sums required
Apr 2012	Series of transactions between CLG & local authorities enable the start of self-financing

3.3 The Council will further consult with our treasury management consultants SECTOR regarding the best spread of debt to be taken in order to finance the settlement and the resultant proposals will be put to and examined by a meeting of the Budget and Strategic Planning working group, as requested, in late February.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 There are no further policy and corporate implications arising from this report.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The business plan illustrates the spending required to ensure that our stock delivers the quality of accommodation required by the Decent Homes Plus standard into the future. It prescribes that efficiencies must be continually sought to provide a service which is good value for money and that resources must be carefully managed so that they are available as and when they are required.

5.2 The introduction of the debt cap will mean that capital investment from borrowing will be limited over the 30 year period of the business plan which will reduce available resources for funding capital projects.

5.3 A summary of the business plan for the first 5 years is as follows:

Revenue

	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000	2016-17 £'000
Income	-7,117	-7,385	-7,662	-7,948	-8,245
Expenditure	3,365	3,461	3,549	3,638	3,730
Interest Payable	1,205	1,286	1,368	1,450	1,533
Depreciation	1,683	1,722	1,762	1,802	1,844
Contribution to Reserve	700	620	700	750	800
Contribution to Capital	0	0	149	542	560
MRP	14	14	14	14	0
Annual Surplus(-)/Deficit	**-150**	**-282**	**-120**	**248**	**222**
Closing HRA Working Balance (-)Surplus	**-569**	**-851**	**-971**	**-723**	**-501**

Throughout the 30 years of the current plan it will be necessary at times to increase the HRA working balance. There is a peak of life cycle capital works showing on the business plan in years 16-20 and so built into the plan leading up to this time is an increasing working balance which will pay for these works when they are required. In order to build up this balance sufficiently the contributions to the new reserve will reduce to £250k pa from 2017-18.

Capital

	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000	2016-17 £'000
Expenditure	1,572	1,601	2,363	2,421	2,482
Major Repairs Reserve Funded	-1,501	-1,528	-2,139	-1,802	-1,843
RTB Receipts	-71	-73	-75	-77	-79
Revenue Contributions	0	0	-149	-542	-560
Annual Surplus(-)/Deficit	**0**	**0**	**0**	**0**	**0**

Reserve

	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000	2016-17 £'000
Revenue Contribution	-700	-620	-700	-750	-800
Closing Balance	**-700**	**-1,320**	**-2,020**	**-2,770**	**-3,570**

6.0 **LEGAL IMPLICATIONS/POWERS**

6.1 There are no other legal implications directly arising from this report.

7.0 **COMMUNITY SAFETY**

7.1 There are no direct links to community safety arising from this report.

8.0 **EQUALITIES**

8.1 An Equalities Impact Assessment form has been completed by the Head of Communities & Neighbourhoods which confirms that there are no specifically adversely affected groups and therefore no action plan is necessary.

9.0 RISKS

9.1 The risks are considered in the table below:

Probability ↓

Very High A		2		
High B	5			
Significant C			3	
Low D			4,6	
Very Low E			1,7	
Almost Impossible F				
	IV Neg-ligible	III Marg-inal	II Critical	I Catast-rophic

Impact →

Risk No.	Description
1	Interest Rate Fluctuation on short and long term borrowing undermines the business plan
2	Rents will not reach full convergence in line with Social Rent policy due to caps & limits imposed
3	Proportion of RTB receipts not retained within the HRA due to pressures on other funds
4	Long term ability to fund stock to ensure kept within the decent homes standard
5	Impact of the inability to borrow beyond the self financing cap to fund capital repairs
6	Maintenance of stock within budget constraints
7	Robustness of stock condition survey

9.2 In recent years there has been a problem regarding the Repairs and Maintenance budget and so it is imperative that the Council has certainty in the early years of this self financing settlement by ensuring that resources are kept within the HRA to mitigate this risk.

9.3 In appendix 4 to the HRA Business Plan wider additional risks to the Council are discussed as well as ways the Council can mitigate some of those risks.

10.0 CLIMATE CHANGE

10.1 There are no climate change issues directly arising from this report.

11.0 CONSULTATIONS

11.1 TFEC members were updated on the HRA Business Plan and Asset Management Strategy at a specific meeting on 20 December 2011 and were made aware of the debt allocation, the asset management strategy and the next steps.

11.2 In order to develop the business plan, continuous involvement in the process will be required by the interested tenant groups and members, including TFEC and the Housing Task Group.

12.0 WARDS AFFECTED

12.1 All wards are affected.

Contact Officer:	Carol King
Date:	18 January 2012
Appendices:	Appendix A – HRA Business Plan Appendix B1 – HRA Asset Management Modelling Appendix B2 – Asset & Estate Reporting
Background Papers:	The Housing Revenue Account Self-financing Determinations Business Plan Financial Model
Reference:	X: C'tees, Council & Sub-C'tees/CSA/240112/DG – Council Housing Finance review